

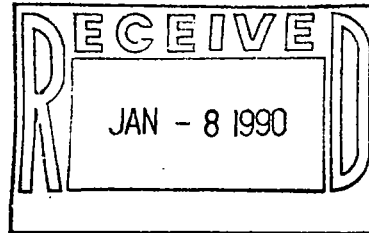


L&WM10638A-131

13.b.
BOWATER INCORPORATED

Calhoun, TN 37309
615/336-2211 Telex: 55-8406

January 5, 1990



Mr. Michael Drozd
Vice President-Operations
Gwalia (USA) Ltd.
1675 Broadway, Suite 2350
Denver, Colorado 80202

Dear Mr. Drozd:

Re: Exchange Agreement
Bowater Tract 1282, Parcel 1

I am enclosing fully executed copies of the Exchange Agreement and Hazardous Material Indemnity Agreement between Gwalia and Bowater Incorporated.

Very truly yours,

Harvey M. Templeton, III
Division Counsel

mlg
enclosures

cc: Mr. William M. Musser



10755492

Bowater Tract 1282 Parcel 1

STATE OF SOUTH CAROLINA)
)
 COUNTY OF McCORMICK)

EXCHANGE AGREEMENT

This Agreement is entered into on December 5, 1989, by GWALIA (USA) LTD., a Delaware corporation ("Gwalia"), and BOWATER INCORPORATED (successor by merger to Catawba Timber Company), a Delaware corporation ("Bowater").

WHEREAS, Bowater owns the real property described in Exhibit "A" attached hereto and made a part hereof (the "Bowater Property"); and

WHEREAS, Gwalia wishes to acquire the Bowater Property by exchanging therefor certain real property hereafter acquired by Gwalia pursuant to the terms hereof.

W I T N E S S E T H:

In consideration of the premises and of the mutual covenants and agreements herein contained, the parties agree as follows:

1. Bowater agrees to convey the Bowater Property to Gwalia in exchange for like-kind property to be designated by Bowater (the "Exchange Property," as more specifically described herein). It is the intention of the parties hereto that the exchange of the Bowater Property for the Exchange Property as provided for in this Agreement qualify as an exchange of property of like-kind within the meaning of Section 1031 of the Internal Revenue Code of 1986, as now in effect, and regulations thereunder. However, Gwalia makes no representations or warranties that said exchange will so qualify and shall in no event be liable or responsible for damages to Bowater in the event the exchange fails to qualify.

2. As soon as practicable after the date hereof, Bowater shall begin the selection of one or more tracts or parcels of land which will comprise the Exchange Property. Bowater will be responsible for negotiating for the purchase of such tracts or parcels. Bowater will be responsible for examining title to any tract or parcel that will become part of the Exchange Property.

3. Upon the completion of negotiations for the purchase of each particular tract or parcel, Bowater shall deliver to Gwalia a written request that Gwalia execute a contract for the purchase of such tract or parcel. Such contract may be in the form of an option. Each such contract for purchase shall be in form and substance satisfactory to Bowater and Gwalia and shall constitute

a contractual agreement of Bowater to accept a conveyance of such tract or parcel as part of the Exchange Property in exchange for the Bowater Property. Transfer of the Exchange Property to Bowater by Gwalia shall be by special warranty deed, and shall be made subject to such liens, encumbrances and exceptions to title as existed on the date of conveyance of such property to Gwalia (the "Permitted Exceptions").

4. Bowater shall have the right to select and negotiate for the purchase of as many tracts or parcels as it deems prudent. To the extent such tracts are purchased, they will collectively compose the Exchange Property. Provided, however, that the aggregate purchase price for all such tracts or parcels and all attendant direct costs incurred by Gwalia in such transactions, shall not exceed the Exchange Value (hereinafter defined).

5. At a time and place to be agreed upon by the parties, the exchange of properties shall be closed (the "Closing") by Gwalia conveying the Exchange Property to Bowater by special warranty deed subject only to the Permitted Exceptions and by Bowater simultaneously conveying the Bowater Property to Gwalia by general warranty deed, subject only to those exceptions and encumbrances, if any, of record as of the date hereof and subject to the reservations set forth in Exhibit A hereto.

6. Gwalia shall, at its own expense, make whatever examination of the title to the Bowater Property it deems necessary for its purposes.

7. For purposes of this exchange the parties hereby agree that the value of the Bowater Property and the amount to be paid by Gwalia (whether in cash or the incurring of direct costs) shall be \$502,525.05 (the "Exchange Value"); provided, however, that if within forty-five (45) days of the date hereof an accurate survey of the Bowater Property shows acreage of less than 148.02 acres, the Exchange Value shall be proportionately reduced, in accordance with the per acre pricing agreement between the parties. If the costs incurred by Gwalia to acquire the Exchange Property, including the price paid for the property and all direct costs incurred by Gwalia in acquiring the Exchange Property, shall be less than the Exchange Value, then Gwalia will pay the deficiency to Bowater at the Closing, as provided in paragraph 8. All such direct costs will be a credit against the Exchange Value. Gwalia shall not be required to expend more in direct costs, including the purchase price of the various tracts or parcels, than the Exchange Value in acquiring the Exchange Property.

8. If Bowater should fail to designate a sufficient amount of Exchange Property for acquisition by Bowater prior to the date eighteen (18) months from the date of this Agreement, then the Closing shall take place within fifteen (15) days thereafter at which time (a) Bowater will convey the Bowater Property to Gwalia, (b) Gwalia shall convey such tracts and parcels of Exchange

Property as it has acquired to Bowater, and (c) Gwalia shall pay Bowater by certified or cashier's check an amount equal to the remaining Exchange Value.

9. Each party shall be responsible for payment of the transfer fees and taxes and recording fees applicable to the deed or deeds which the party receives at Closing. Ad valorem taxes on the Bowater Property shall be prorated at Closing. Any ad valorem taxes on the Exchange Property accruing on the Exchange Property while held by Gwalia shall be paid by Bowater upon conveyance and may, at Bowater's option, be considered part of and applied against the Exchange Value.

10. Any loss or damage occurring to the Bowater Property after the date hereof shall be the responsibility of Gwalia, and any loss or damage to the Exchange Property occurring after acquisition by Gwalia and prior to conveyance to Bowater shall be the responsibility of Bowater. Each party shall have the right to enter the property being acquired by it from the other for the purpose of taking all action deemed necessary to reduce said risk of loss.

11. Gwalia shall not be required to enforce by legal action any option or contract made in its name to purchase Exchange Property, and in case of any dispute involving same, Gwalia shall promptly assign that option or contract and all of its rights thereunder to Bowater without recourse or warranty, and Bowater shall reimburse Gwalia for all direct costs (including earnest money) incurred by Gwalia in connection with that contract or option and shall indemnify Gwalia and hold Gwalia harmless with respect to any claims that may be asserted against Gwalia under such contract or option. Further, Bowater shall indemnify and hold harmless Gwalia for any and all claims and liabilities which are asserted against or incurred by Gwalia by reason of Gwalia owning the Exchange Property, whether such claims or liabilities arise from personal injury, environmental damages or otherwise.

12. Any notice or property designation required under this Agreement shall be sufficient if delivered in person or by certified mail addressed to the parties as follows:

If to Bowater: H.M. Templeton, III, Esquire
Division Counsel
Bowater Incorporated
Carolina Division
Calhoun, Tennessee 37309

If to Gwalia: Gwalia (USA) LTD.
Attention: Mr. Michael Drozd
1675 Broadway, Suite 2350
Denver, Colorado 80202

13. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors, and assigns.

14. This Agreement shall be governed by the laws of the State of South Carolina.

IN WITNESS WHEREOF, the parties hereto have signed, sealed, and delivered this Agreement on the date first above written.

Witnesses:
As to Gwalia:

Beverly A. Wilson

GWALIA (USA) LTD.

By: Michael D. J.
Title: Vice President Operations (Seal)

ATTEST: Beverly A. Wilson
Admin Assistant
Title:

Witnesses:
As to Bowater

Mr. B. Morris
Mary L. Graham

BOWATER INCORPORATED

By: George W. Flanders
George W. Flanders
Vice President-Woodlands
Manager, Carolina Division
(Seal)

ATTEST:

Harmon T. Tipler
Title: Assistant Secretary

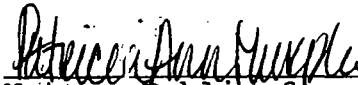
STATE OF COLORADO)
COUNTY OF DENVER)

PROBATE

Before me, the undersigned notary public personally appeared P. Murphy who being duly sworn and deposed, said that she saw GWALIA (USA) LTD., by its authorized officers, sign, seal and deliver the foregoing Exchange Agreement and that she together with Dan Greig witnessed the execution thereof.


Witness

SWORN to and subscribed before me
this 5th day of December, 1989

 (SEAL)
Notary Public for Colorado
My Commission Expires: 5/17/93

STATE OF TENNESSEE)
)
COUNTY OF McMINN)

PROBATE

Before me, the undersigned notary public personally appeared Sue B. Morris who being duly sworn and deposed, said that she saw BOWATER INCORPORATED, by its authorized officers, sign, seal and deliver the foregoing Exchange Agreement and that she together with Mary L. Graham witnessed the execution thereof.

Sue B. Morris
Witness

SWORN to and subscribed before me
this 4th day of January, 1990

Mary L. Graham (SEAL)
Notary Public for Tennessee
My Commission Expires: 1/31/90

EXHIBIT "A"
to
EXCHANGE AGREEMENT

Bowater Incorporate Tract No 1282, Parcel 1, located in McCormick County, South Carolina, and being more particularly described as follows:

Being all of Parcel 1 of Tract 1282 conveyed by East Highlands Company to Catawba Timber Company by deed dated January 1, 1979, and of record in Deed Book 49, Page 142, in the Office of the Clerk of Court for McCormick County, South Carolina, containing 148 acres, more or less.

The southeastern boundary of said property was subsequently modified by two boundary line agreements dated November 17, 1980, and November 18, 1980, and of record respectively in Deed Book 54, Page 14, and Deed Book 54, Page 15, in the Office of the Clerk of Court for McCormick County, South Carolina, so that said property now consists of 148.02 acres.

RESERVING unto Bowater Incorporated and its successors and assigns all coal, oil, gas, associated hydrocarbon substances, and all metallic or non-metallic minerals and ores which contain mineral matter or substances and mineral rights in, on, or under the above-described property together with the right to explore for and remove same by any method. Subject, however, to the Mineral Lease between Bowater Incorporated and Gwalia created by exercise on _____ of the option to lease under the Exploration Agreement With Option to Lease dated September 1, 1985. The Mineral Lease shall survive the conveyance by Bowater Incorporated of the above-described property to Gwalia.

SUBJECT to existing easements and rights of way for public roads and highways and public utilities, if any, extending into, through, over, or across the above-described property.

Prior title reference: Deed Book 49, Page 142, Office of the Clerk of Court for McCormick County, South Carolina.

Bowater Tract 1282 Parcel 1

HAZARDOUS MATERIAL INDEMNITY AGREEMENT

This Hazardous Material Indemnity Agreement (the "Agreement") is made effective this 5 day of December 1989, between Gwalia (USA) Ltd., a Delaware corporation ("Gwalia"), and Bowater Incorporated (successor by merger to Catawba Timber Company), a Delaware corporation ("Bowater").

W I T N E S S E T H:

WHEREAS, Gwalia and Bowater have simultaneously with the execution hereof entered into an Exchange Agreement, dated , 1989 (the "Exchange Agreement"), whereunder Gwalia has agreed to acquire and convey to Bowater certain real property to be designated by Bowater pursuant to the terms of the Exchange Agreement (the "Exchange Property," as more particularly defined in the Exchange Agreement), and which will be exchanged for certain real property owned by Bowater (the "Bowater Property," as more particularly defined in the Exchange Agreement); and

WHEREAS, unless otherwise specifically defined herein, the capitalized terms used in this Agreement will have the meanings set forth in the Exchange Agreement; and

WHEREAS, as material consideration to Gwalia for the consummation of the transactions contemplated by the Exchange Agreement, Bowater has agreed to indemnify Gwalia from all loss, costs and expenses incurred as a result of environmental hazards in connection therewith, all as more particularly set forth herein.

NOW, THEREFORE, in consideration of the mutual promises set forth herein and in return for other good and valuable consideration, the receipt of which is hereby acknowledged, Gwalia and Bowater agree as follows:

1. Hazardous Materials. As used in this Agreement, the term "Hazardous Materials" shall mean any substance or material which has been defined by any state, federal or local government authority to be a hazardous or toxic substance or material including, but not limited to, all of those materials, wastes and substances designated as hazardous or containing hazardous constituents, (including, but not limited to those set forth in 40 C.F.R. §§ 261, 302), or as toxic by the U.S. Environmental Protection Agency, the U.S. Department of Labor, the U.S. Department of Transportation, the South Carolina Department of Health and Environmental Control (or similar regulatory authority of a state in which Exchange Property is located), and/or any other governmental agency now or hereafter authorized to regulate materials and substances in the environment (singularly a

"Governmental Authority" and collectively the "Governmental Authorities").

2. Indemnification for Hazardous Material Liability. Bowater shall indemnify, hold harmless, and defend Gwalia, its officers, directors, employees, and agents, and any successors to Gwalia's interests in the chain of title to the Exchange Property, their directors, officers, employees, or agents (collectively "Indemnitees"), against all claims, demands, losses, liabilities, costs and expenses, including attorneys' fees (collectively "Liabilities") arising by virtue of Hazardous Materials being present in the soil or groundwater or otherwise present in the Exchange Property or any part or parcel thereof. This indemnification shall include without limitation: (i) all costs of any investigations, rehabilitation actions, reports or other investigatory or remedial action which might be required by any Government Authority having jurisdiction; or (ii) all damages to third persons for personal injury or property damage arising from the existence of Hazardous Materials; and (iii) those which arise from Bowater's failure to properly and diligently perform any of its obligations under this Agreement.

Such Liabilities shall further include, by way of illustration but without limitation: (i) injury or death to any person; (ii) damage to or loss of use of any other property; (iii) the cost of any demolition and rebuilding of the improvements on any parcel of Exchange Property, repair, or remediation and the preparation of any closure or other activity required by any Governmental Authority; (iv) any lawsuit brought or threatened, good faith settlement reached, or governmental order relating to the presence, disposal, release or threatened release of any Hazardous Materials; and (v) the imposition of any liens on the Exchange Property arising from the existence of the Hazardous Materials in the Exchange Property.

3. Notices. Each party shall promptly notify the other party of any inquiry, investigation, order, or enforcement proceeding by or against the notifying party in connection with all or any portion of the Exchange Property relating to Hazardous Materials.

4. Successors. This Agreement shall bind and inure to the benefit of Gwalia and Bowater and their respective successors and legal representatives, including any successors by reason of merger.

5. Survival. Each covenant, agreement, representation, warranty, and indemnification of Bowater contained in this Agreement shall survive the Closing and any termination of the Exchange Agreement, and shall remain effective until all of Bowater's obligations under this Agreement have been completely performed and satisfied.

6. Captions. The captions in this Agreement are only for the purpose of reference and shall in no way define or interpret any provision hereof.

7. Notices. Any notice required to be given hereunder shall be in writing and delivered in accordance with the provisions of the Exchange Agreement.

8. Counterparts. This Agreement may be executed simultaneously in any number of counterparts each of which shall be deemed an original but all of which together shall constitute the one and the same Agreement.

9. Amendment. This Agreement may be amended only by written agreement executed by the parties hereto.

10. Severability. The terms, conditions, covenants and provisions of this Agreement shall be deemed to be severable. If any term, condition or covenant is held to be invalid, illegal or unenforceable in any respect, this Agreement shall be construed without such provision.

11. No Limitation of Rights. The rights of Gwalia under this Agreement shall be in addition to, and shall in no way limit, Gwalia's rights under the Exchange Agreement or under applicable law.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date set forth opposite their signatures below, to be effective as of the date first shown above.

Witnesses:
As to Gwalia:

[Signature]
[Signature]

GWALIA (USA) LTD.

By: [Signature]
Title: Vice President Operations (Seal)

Witnesses:
As to Bowater

[Signature]
[Signature]

BOWATER INCORPORATED

By: [Signature]
George W. Flanders
Vice President-Woodlands
Manager, Carolina Division
(Seal)

ATTEST:

[Signature]

Title: Assistant Secretary